

Manchester Community Schools

**Financial Report
with Supplemental Information
June 30, 2006**

Manchester Community Schools

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Independent Auditor's Report

To the Board of Education
Manchester Community Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Manchester Community Schools as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Manchester Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Manchester Community Schools as of June 30, 2006 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Education
Manchester Community Schools

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Manchester Community Schools' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 29, 2006 on our consideration of the School District's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

September 29, 2006

Manchester Community Schools

Management's Discussion and Analysis

This section of Manchester Community Schools' annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2006. Please read it in conjunction with the School District's basic financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Manchester Community Schools financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund, 2001 Debt Service Fund, and 2001 Capital Projects Fund - with all other funds presented in one column as nonmajor funds. The remaining statements, the statement of fiduciary net assets and statement of changes in fiduciary net assets, present financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for Major Funds

Other Supplemental Information

Reporting the School District as a Whole - District-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Manchester Community Schools

Management's Discussion and Analysis (Continued)

Reporting the School District as a Whole - District-wide Financial Statements (Continued)

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, athletics, capital projects, debt service, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Services and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental Funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

Manchester Community Schools

Management's Discussion and Analysis (Continued)

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets as of June 30, 2006 and 2005:

	Governmental Activities	
	June 30	
	2006	2005
	(in millions)	
Assets		
Current and other assets	\$ 6.0	\$ 6.4
Capital assets	<u>38.3</u>	<u>38.4</u>
Total assets	44.3	44.8
Liabilities		
Current liabilities	4.1	4.0
Long-term liabilities	<u>40.3</u>	<u>39.6</u>
Total liabilities	<u>44.4</u>	<u>43.6</u>
Net Assets (Deficit)		
Invested in property and equipment - Net of related debt	(2.0)	(0.4)
Restricted	0.5	0.2
Unrestricted	<u>1.4</u>	<u>1.4</u>
Total net assets (deficit)	<u>\$ (0.1)</u>	<u>\$ 1.2</u>

Manchester Community Schools

Management's Discussion and Analysis (Continued)

The School District as a Whole (Continued)

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were (\$0.1) million at June 30, 2006. Capital assets, net of related debt totaling \$(2.0) million, compares the original cost less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets, \$1.4 million, was unrestricted.

The \$1.4 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net assets balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years 2006 and 2005.

Manchester Community Schools

Management's Discussion and Analysis (Continued)

The School District as a Whole (Continued)

TABLE 2

	Governmental Activities	
	June 30	
	2006	2005
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 0.6	\$ 0.4
Operating grants	1.1	1.1
General revenue:		
Property taxes	3.4	3.3
State foundation allowance	8.2	8.0
Other	1.0	1.2
Total revenue	14.3	14.0
Functions/Program Expenses		
Instruction	6.4	5.2
Support services	5.5	4.8
Food services	0.5	0.4
Athletics	0.4	0.4
Community services	0.4	0.3
Interest on long-term debt	2.4	1.9
Total functions/program expenses	15.6	13.0
Increase (Decrease) in Net Assets	\$ (1.3)	\$ 1.0

As reported in the statement of activities, the cost of all of our governmental activities this year was \$15.6 million. Certain activities were partially funded from those who benefited from the programs (\$.6 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$1.1 million). We paid for the remaining "public benefit" portion of our governmental activities with \$3.4 million in taxes, \$8.2 million in state foundation allowance, and with our other revenues, i.e., interest and general entitlements.

The School District experienced a decrease in net assets of \$1.3 million. There has been a continuing concerted effort by the administration to minimize expenses during the current fiscal year due to the uncertainty of State of Michigan funding for the 2005-2006 school year, and due to the unknown level of funding of the State's foundation allowance in the 2006-2007 school year.

Manchester Community Schools

Management's Discussion and Analysis (Continued)

The School District as a Whole (Continued)

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of School District operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted resources.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$3.3 million, which is a decrease of \$.4 million from last year. The primary reasons for the decrease are as follows:

In the General Fund, our principal operating fund, the fund balance decreased \$0.2 million to \$1.7 million. The change is mainly due to:

- Purchase of two new buses to replace the two oldest buses in the fleet
- Rising fuel and utility costs

The fund balance in the General Fund is available for expenses related to allowable school operating purposes.

The Special Revenue Funds showed a net decrease of approximately \$26,000. A combination of rising salaries and timing differences of expenses contributed of the decrease in the Athletic Fund. The Food Service Fund showed a slight improvement over last year although it still showed a small loss.

Combined, the Debt Service Funds showed a fund balance increase of approximately \$435,000 from the prior year. Millage rates continue to be levied at seven mills and are allocated annually to all the bond issues to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Durant debt obligations are funded by annual state appropriation, and no fund balance exists at year end. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations. Two debt refundings occurred during the year, resulting in a savings in interest expense immediately and reducing the amount of future borrowings from the School Loan Revolving Fund.

Manchester Community Schools

Management's Discussion and Analysis (Continued)

The combined Capital Projects Funds fund balance decreased as the School District continued to use its residual funds from the 2001 bond issue. The funds were used for equipping the elementary school with air conditioning and for constructing a new transportation facility. The fund balance at June 30, 2006 is \$.7 million, and these funds are expected to be fully depleted by June 30, 2007.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year end. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these basic financial statements.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2006, the School District had \$44.9 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents an increase (including additions and disposals) of approximately \$.8 million, or 1.8 percent, from last year.

	2006	2005
Land and improvements	\$ 2,322,756	\$ 2,322,756
Buildings and building improvements	37,561,683	36,888,303
Buses and other vehicles	1,198,382	1,213,732
Furniture and equipment	3,906,336	3,751,842
Total capital assets	<u>\$ 44,989,157</u>	<u>\$ 44,176,633</u>

This year's additions of approximately \$1.0 million included cafeteria equipment, technology, building renovations, new school construction, buses, and grounds and maintenance equipment.

For the 2006-2007 fiscal year, we plan to use our remaining bond funds on various items related to our recently completed capital projects. We anticipate capital additions will be significantly less than the 2005-2006 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

Manchester Community Schools

Management's Discussion and Analysis (Continued)

Debt

At the end of this year, the School District had \$40.6 million in bonds outstanding and \$40.0 million in the previous year. Those bonds consisted of the following:

	2006	2005
Bonds	\$ 35,904,536	\$ 36,455,975
School bond loan	4,723,331	3,585,211
Total	<u>\$ 40,627,867</u>	<u>\$ 40,041,186</u>

The School District's general obligation bond rating is AA. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of \$40.6 million is significantly below this \$61.5 million statutorily imposed limit.

Other obligations include accrued vacation and sick leave. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2006-2007 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2006-2007 fiscal year is 25 percent and 75 percent of the February 2006 and September 2006 student counts, respectively. The 2006-2007 budget was adopted in June 2006, based on an estimate of students who will be enrolled in September 2006. Approximately 60 percent of total General Fund revenue is from the foundation allowance. Under state law, the School District cannot assess additional property tax revenue for general operations. As a result, School District funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2006-2007 school year, we anticipate that the fall student count will be down slightly from the estimates used in creating the 2006-2007 budget. Once the final student count and related per pupil funding is validated, state law requires the School District to amend the budget if actual School District resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts.

Manchester Community Schools

Management's Discussion and Analysis (Continued)

Other major economic factors of concern to the School District are the rising cost of health insurance premiums, the uncertainty of the per pupil foundation allowance due to the State's budget crisis, and the effect on school funding from the passage or failure of Proposal 5.

Manchester Community Schools

Statement of Net Assets June 30, 2006

	Governmental Activities
Assets	
Cash and investments (Note 3)	\$ 3,044,022
Accounts receivable (Note 4)	2,043,823
Prepaid items and inventories	24,473
Restricted assets (Note 9)	875,021
Capital assets - Net (Note 6)	<u>38,286,574</u>
Total assets	44,273,913
Liabilities	
Accounts payable	319,293
Accrued payroll and other liabilities	1,033,375
State aid anticipation note (Note 12)	1,337,000
Long-term liabilities (Note 8):	
Due within one year	1,371,980
Due in more than one year	<u>40,265,600</u>
Total liabilities	<u>44,327,248</u>
Net Assets (Deficit)	
Investment in capital assets - Net of related debt	(1,959,014)
Restricted - Debt service	509,346
Unrestricted	<u>1,396,333</u>
Total net assets (deficit)	<u>\$ (53,335)</u>

Manchester Community Schools

Statement of Activities Year Ended June 30, 2006

	Program Revenues			Governmental Activities
				Net (Expense)
			Operating	Revenue and
		Charges for	Grants/	Changes in
Expenses		Services	Contributions	Net Assets
Functions/Programs				
Primary government - Governmental activities:				
Instruction	\$ 6,417,384	\$ -	\$ 1,008,754	\$ (5,408,630)
Support services	5,513,321	-	-	(5,513,321)
Food services	478,328	252,700	96,495	(129,133)
Athletics	426,787	130,658	-	(296,129)
Community services	386,159	208,576	-	(177,583)
Interest on long-term debt	2,375,270	-	-	(2,375,270)
Total governmental activities	<u>\$ 15,597,249</u>	<u>\$ 591,934</u>	<u>\$ 1,105,249</u>	(13,900,066)
General revenues:				
Taxes:				
Property taxes, levied for general purposes				1,250,609
Property taxes, levied for debt services				2,191,794
State aid not restricted to specific purposes				8,154,277
Interest and investment earnings				135,713
Other				<u>900,753</u>
Total general revenues				<u>12,633,146</u>
Change in Net Assets				(1,266,920)
Net Assets - Beginning of year				<u>1,213,585</u>
Net Assets (Deficit) - End of year				<u>\$ (53,335)</u>

Manchester Community Schools

Governmental Funds Balance Sheet June 30, 2006

	General Fund	2001 Debt Service	2001 Capital Projects	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments (Note 3)	\$ 1,982,577	\$ 458,344	\$ 875,021	\$ 603,101	\$ 3,919,043
Accounts receivable (Note 4)	2,009,185	2,586	-	32,052	2,043,823
Due from other funds (Note 7)	199,220	198	3,874	41,288	244,580
Prepaid items and inventories	16,349	-	-	8,124	24,473
Total assets	<u>\$ 4,207,331</u>	<u>\$ 461,128</u>	<u>\$ 878,895</u>	<u>\$ 684,565</u>	<u>\$ 6,231,919</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 152,421	\$ -	\$ 166,872	\$ -	\$ 319,293
Accrued payroll and other liabilities	872,569	-	-	494	873,063
State aid anticipation note (Note 12)	1,337,000	-	-	-	1,337,000
Due to other funds (Note 7)	45,162	-	-	199,418	244,580
Deferred revenue (Note 5)	126,626	-	-	-	126,626
Total liabilities	2,533,778	-	166,872	199,912	2,900,562
Fund Balances					
Reserved:					
Encumbrances	188,490	-	90,070	-	278,560
Prepaid items and inventories	16,349	-	-	8,124	24,473
Reserved for capital projects	-	-	621,953	218,290	840,243
Reserved for debt service	-	461,128	-	145,383	606,511
Undesignated, reported in:					
General Fund	1,468,714	-	-	-	1,468,714
Special Revenue Funds	-	-	-	112,856	112,856
Total fund balances	<u>1,673,553</u>	<u>461,128</u>	<u>712,023</u>	<u>484,653</u>	<u>3,331,357</u>
Total liabilities and fund balances	<u>\$ 4,207,331</u>	<u>\$ 461,128</u>	<u>\$ 878,895</u>	<u>\$ 684,565</u>	<u>\$ 6,231,919</u>

Manchester Community Schools

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2006

Fund Balance - Total Governmental Funds \$ 3,331,357

Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are
not financial resources and are not reported in the
governmental funds:

Cost of capital assets	\$ 44,989,157	
Accumulated depreciation	<u>(6,702,583)</u>	38,286,574

Other long-term assets not available to pay current
period expenditures are therefore deferred in the
governmental funds

126,626

Long-term liabilities are not due and payable in the
current period and are not reported in the
governmental funds:

Bonds and notes payable	(41,015,589)
Compensated absences	(621,991)

Accrued interest payable is not included as a
liability in governmental funds

(160,312)

Net Assets - Governmental Activities

\$ (53,335)

Manchester Community Schools

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2006

	General Fund	2001 Debt Service	2001 Capital Projects	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue					
Local sources	\$ 2,435,991	\$ 1,588,553	\$ 36,114	\$ 1,017,654	\$ 5,078,312
State sources	8,812,298	-	-	23,740	8,836,038
Federal sources	289,012	-	-	96,495	385,507
Total revenue	11,537,301	1,588,553	36,114	1,137,889	14,299,857
Expenditures					
Current:					
Instruction	5,804,513	-	-	-	5,804,513
Support services	5,008,382	-	-	-	5,008,382
Community services	329,507	-	-	-	329,507
Food services	-	-	-	365,024	365,024
Athletics	-	-	-	377,644	377,644
Debt service:					
Principal	-	995,000	-	316,439	1,311,439
Interest	-	1,310,856	-	262,433	1,573,289
Other	-	274	-	159,097	159,371
Capital outlay	175,188	-	654,891	14,639	844,718
Intergovernmental transfers	147,655	-	-	-	147,655
Total expenditures	11,465,245	2,306,130	654,891	1,495,276	15,921,542
Excess (Deficiency) of Revenue Over Expenditures	72,056	(717,577)	(618,777)	(357,387)	(1,621,685)
Other Financing Sources (Uses)					
Proceeds of long-term debt	-	1,288,088	-	15,501,187	16,789,275
Payment to refunded bond escrow agent	-	-	-	(15,546,306)	(15,546,306)
Transfers in	-	-	-	477,959	477,959
Transfers out	(230,977)	(237,000)	-	(9,982)	(477,959)
Total other financing sources (uses)	(230,977)	1,051,088	-	422,858	1,242,969
Net Change in Fund Balance	(158,921)	333,511	(618,777)	65,471	(378,716)
Fund Balances - Beginning of year	1,832,474	127,617	1,330,800	419,182	3,710,073
Fund Balances - End of year	<u>\$ 1,673,553</u>	<u>\$ 461,128</u>	<u>\$ 712,023</u>	<u>\$ 484,653</u>	<u>\$ 3,331,357</u>

The Notes to Financial Statements are
an Integral Part of this Statement.

Manchester Community Schools

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds **\$ (378,716)**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	\$ (1,133,037)	
Capitalized capital outlay	<u>974,590</u>	(158,447)

Revenue is reported in the statement of activities at the time it is earned, without regard to timeliness of collection	37,981
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Bond issuance is not reported as financing sources on the statement of activities	(16,456,261)
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Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	36,311
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Repayment of bond and note principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	15,686,439
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Compensated absences are recorded when earned in the statement of activities. In the current year, more was earned than was paid out	<u>(34,227)</u>
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Change in Net Assets of Governmental Activities **\$ (1,266,920)**

Manchester Community Schools

Fiduciary Fund Statement of Fiduciary Net Assets June 30, 2006

	Private- purpose Trust	Student Activities Agency Fund
Assets - Cash and investments	<u>\$ 56,587</u>	<u>\$ 152,051</u>
Liabilities		
Due to student groups	\$ -	\$ 131,192
Due to community service groups	<u>-</u>	<u>20,859</u>
Total liabilities	<u>-</u>	<u>\$ 152,051</u>
Net Assets - Reserved for scholarships	<u>\$ 56,587</u>	

Manchester Community Schools

Fiduciary Fund Statement of Changes in Fiduciary Net Assets Year Ended June 30, 2006

	Private- purpose Trust
	<hr/>
Additions - Interest	\$ 1,683
Net Assets - Beginning of year	<hr/> 54,904
Net Assets - End of year	<hr/> \$ 56,587 <hr/>

Manchester Community Schools

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Manchester Community Schools conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's district-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Manchester Community Schools

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-wide Financial Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the School District.

Manchester Community Schools

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

The School District reports the following major governmental funds:

General Fund - The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

2001 Debt Service Fund - The 2001 Debt Service Fund is used to record tax and interest revenue and the payment of interest, principal, and other expenditures on the 2001 debt issue.

2001 Capital Project Fund - The 2001 Capital Project Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for acquiring equipment, and for remodeling. The fund operates until the purpose for which it was created is accomplished.

Additionally, the School District reports the following fund types:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The School District's Special Revenue Funds include the Food Services and Athletics Funds. Any operating deficit generated by these activities is the responsibility of the General Fund.

Debt Service Funds - Debt Service Funds are used to record tax and interest revenue and the payment of interest, principal, and other expenditures on long-term debt.

Capital Projects Funds - The Capital Projects Funds are used to record bond proceeds or other revenue and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment, and for major remodeling. The fund operates until the purpose for which it was created is accomplished.

Activities Agency Fund - The School District presently maintains an Agency Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

Private-purpose Trust Funds - The School District presently maintains Private-purpose Trust Funds to account for funds entrusted to the School District for scholarship awards.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Manchester Community Schools

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds."

All trade and property tax and other trade receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28. Taxes are considered delinquent on March 1 the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

Restricted Assets - The unspent bond proceeds and related interest of the Capital Projects Funds require amounts to be set aside for construction. Unspent tax collections in the Debt Service Funds require amounts to be set aside for future principal and interest payments. These amounts have been classified as restricted assets.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the district-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and building additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-20 years

Manchester Community Schools

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave) - The liability for compensated absences reported in the district-wide statements consists of earned but unused accumulated vacation and sick leave benefits. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-term Obligations - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and are amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data - Comparative data is not included in the School District's financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

Manchester Community Schools

Notes to Financial Statements June 30, 2006

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. There were no significant amendments during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balance and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the School District incurred expenditures in the General Fund, which were in excess of the amounts budgeted, as follows:

	<u>Budget</u>	<u>Actual</u>
General Fund:		
Adult and continuing education	\$ -	\$ 80,706
Capital outlay	6,200	175,188

Capital Projects Fund Compliance - The Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of §1351a of the State of Michigan's School Code.

Note 3 - Deposits and Investments

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan; the School District is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

The School District has designated four banks for the deposit of its funds.

Manchester Community Schools

Notes to Financial Statements
June 30, 2006

Note 3 - Deposits and Investments (Continued)

The investment policy adopted by the board has authorized investments as listed in the state statutory authority as listed above.

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District requires that financial institutions be evaluated and only those with an acceptable risk level are used for the School District's deposits for custodial credit risk. At year end, the School District's deposit balance of \$2,370,283 had \$2,066,766 of bank deposits that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

The bank investment pool in the amount of \$1,389,161 is held by the trust department of the bank and regulated by the Michigan Banking Act. The fair value of the position in the bank investment pool is the same as the value of the pool shares. The bank investment pool is not rated.

Investments under the interlocal agreement (MILAF) in the amount of \$1,717,084 are regulated by the Urban Cooperation Act. The fair value of the position in the interlocal agreement pools is the same as the value of the pool shares. The interlocal agreement (MILAF) is rated at AAAM according to Standard and Poor's.

Manchester Community Schools

Notes to Financial Statements June 30, 2006

Note 4 - Receivables

Receivables as of year end for the School District's individual major funds and the nonmajor funds, in the aggregate, are as follows:

	General Fund	2001 Debt Service Fund	Nonmajor and Other Funds	Total
Receivables:				
Taxes	\$ 12,248	\$ 2,586	\$ 2,227	\$ 17,061
Accounts	199,083	-	29,825	228,908
Intergovernmental	<u>1,797,854</u>	<u>-</u>	<u>-</u>	<u>1,797,854</u>
Net receivables	<u>\$ 2,009,185</u>	<u>\$ 2,586</u>	<u>\$ 32,052</u>	<u>\$ 2,043,823</u>

Note 5 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, deferred revenue consists of receivables that are not available to liquidate liabilities of the current period.

Manchester Community Schools

Notes to Financial Statements June 30, 2006

Note 6 - Capital Assets

Capital asset activity of the School District's governmental activities was as follows:

	Balance July 1, 2005	Additions	Disposals and Reclassifications	Balance June 30, 2006
Capital assets not being depreciated -				
Land	\$ 2,322,756	\$ -	\$ -	\$ 2,322,756
Capital assets being depreciated:				
Building and building improvements	36,888,303	673,380	-	37,561,683
Buses and other vehicles	1,213,732	146,716	(162,066)	1,198,382
Furniture and equipment	3,751,842	154,494	-	3,906,336
Subtotal	41,853,877	974,590	(162,066)	42,666,401
Accumulated depreciation:				
Building and building improvements	3,991,201	650,154	-	4,641,355
Buses and other vehicles	786,441	74,313	(162,066)	698,688
Furniture and equipment	953,970	408,570	-	1,362,540
Subtotal	5,731,612	1,133,037	(162,066)	6,702,583
Net capital assets being depreciated	36,122,265	(158,447)	-	35,963,818
Net governmental capital assets	\$ 38,445,021	\$ (158,447)	\$ -	\$ 38,286,574

Depreciation expense was charged to activities of the School District (primary government) as follows:

Governmental activities:	
Instruction	\$ 679,822
Support services	226,607
Community services	56,652
Food services	113,304
Athletics	56,652
Total governmental activities	\$ 1,133,037

Manchester Community Schools

Notes to Financial Statements June 30, 2006

Note 6 - Capital Assets (Continued)

Construction Commitments - The School District has an active construction project at year end related to the 2001 bond issue. At year end, the School District's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
2001 bond issue	\$ 176,559	\$ 494,378

Note 7 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Due from Fund	Due to Fund	Amount
Food Service	General Fund	\$ 199,220
General Fund	Athletic Fund	16,661
2000 Debt Service Fund	2001 Debt Service Fund	198
General Fund	2001 Capital Projects Fund	3,874
General Fund	2000 Capital Projects Fund	995
General Fund	Durant Fund	23,632
	Total	\$ 244,580

Interfund Transfers

	Transfers in (Out)		
	General Fund	2001 Debt Service Fund	Nonmajor Governmental Funds
General Fund	\$ -	\$ -	\$ 477,959
Other nonmajor governmental funds	(230,977)	(237,000)	(9,982)
Total	\$ (230,977)	\$ (237,000)	\$ 467,977

Interfund balances represent routine and temporary cash flow assistance between funds.

Manchester Community Schools

Notes to Financial Statements June 30, 2006

Note 8 - Long-term Debt

The School District issues bonds and notes to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Notes and installment purchase agreements are also general obligations of the School District. Other long-term obligations include compensated absences.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Bonds	\$ 36,455,975	\$ 15,135,000	\$ 15,686,439	\$ 35,904,536	\$ 1,371,980
School bond loan	3,585,211	1,138,120	-	4,723,331	-
Total bonds payable	40,041,186	16,273,120	15,686,439	40,627,867	1,371,980
School bond loan interest	204,581	183,141	-	387,722	-
Compensated absences	587,764	34,227	-	621,991	-
Total governmental activities	<u>\$ 40,833,531</u>	<u>\$ 16,490,488</u>	<u>\$ 15,686,439</u>	<u>\$ 41,637,580</u>	<u>\$ 1,371,980</u>

Annual debt service requirements to maturity for the above bond obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2007	\$ 1,371,980	\$ 1,608,413	\$ 2,980,393
2008	1,485,233	1,575,696	3,060,929
2009	1,503,152	1,499,961	3,003,113
2010	1,553,777	1,439,581	2,993,358
2011	1,609,434	1,378,347	2,987,781
2012-2016	6,800,960	5,848,431	12,649,391
2017-2021	6,605,000	4,355,075	10,960,075
2022-2026	7,425,000	2,498,500	9,923,500
2027-2031	7,550,000	1,136,250	8,686,250
Total	<u>\$ 35,904,536</u>	<u>\$ 21,340,254</u>	<u>\$ 57,244,790</u>

Manchester Community Schools

Notes to Financial Statements June 30, 2006

Note 8 - Long-term Debt (Continued)

Governmental Activities

General obligation bonds consist of the following:

\$2,900,000 general obligation bonds due in annual installments of \$275,000 through May 2009; interest at 4.60% to 4.75%	\$ 825,000
\$37,865,000 general obligation bonds due in annual installments of \$270,000 to \$1,560,000 through May 2031; interest at 3.50% to 5.50%	19,835,000
\$236,316 Durant School Improvement Bond, due in annual installments of \$11,980 to \$55,233 through May 2013, interest at 4.76%	139,536
\$7,590,000 general obligation bonds due in annual installments of \$30,000 to \$1,260,000 through May 2018, interest at 3.0% to 5.0%	7,560,000
\$7,545,000 general obligation bonds due in annual installments of \$45,000 to \$1,500,000 starting May 2020 through May 2026, interest at 4.0% to 4.125%.	<u>7,545,000</u>
Total bonded debt	<u>\$ 35,904,536</u>

Durant Non-Plaintiff Bond - Included in governmental activities general obligation bonds is the Durant Non-Plaintiff Bond. Annual total payments (principal and interest) of \$150,975 associated with this bond are funded by the State of Michigan via specifically appropriated state aid and will not require any School District debt levy or utilization of any other School District financial resources.

Manchester Community Schools

Notes to Financial Statements June 30, 2006

Note 8 - Long-term Debt (Continued)

School Bond Loan - The school bond loan payable represents notes payable to the State of Michigan for loans made to the School District, as authorized by the 1963 State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the School District issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board. Interest rates ranged from an annual 3.125 percent to 4.5 percent from July 1, 2005 to June 30, 2006. Repayment is required when the millage rate necessary to cover the annual bonded debt service falls below seven mills. The School District is required to levy seven mills and repay to the State any excess of the amount levied over the bonded debt service requirements. Due to the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the School District, no provision for repayment has been included in the above amortization schedule.

Current Refunding - During the year, the School District issued \$7,590,000 in general obligation bonds with interest rates ranging from 3.0 percent to 5.0 percent. The proceeds of these bonds were used to advance refund \$7,250,000 of outstanding 2001 Building and Site bonds with an average rate of 5.39 percent. The net proceeds of \$7,998,888 (after payment of \$81,392 in underwriting fees, insurance, and other issuance costs) plus a net premium of \$408,888, and an additional \$92,000 of debt service monies were used to purchase U.S. government securities and were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the School District's long-term obligations. The advance refund reduced total debt service payments by \$372,686, which represents an economic gain of \$304,854.

In addition, during the year, the School District issued \$7,545,000 in general obligation bonds with interest rates ranging from 4.0 percent to 4.125 percent. The proceeds of these bonds were also used to advance refund \$7,125,000 of outstanding 2001 Building and Site bonds with an average rate of 5.0 percent. The net proceeds of \$7,469,126 (after payment of \$77,316 in underwriting fees, insurance, and other issuance costs) plus a net discount of \$75,874, and an additional \$145,000 of debt service monies were used to purchase U.S. government securities and were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the School District's long-term obligations. The advance refund reduced total debt service payments by \$502,277, which represents an economic gain of \$422,080.

Manchester Community Schools

Notes to Financial Statements June 30, 2006

Note 9 - Restricted Assets

The balances of the restricted asset accounts are as follows:

	Governmental Activities
Unspent bond proceeds and related interest	\$ 875,021

Note 10 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for property loss, torts, errors and omissions, and medical claims and participates in the SEG Self-Insurers Workers' Disability Compensation Fund (risk pool) for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 11 - Defined Benefit Pension Plan and Postemployment Benefits

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPERS provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the MPERS at P.O. Box 30171, Lansing, MI 48909-7671.

Funding Policy - Employer contributions to the MPERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

Manchester Community Schools

Notes to Financial Statements June 30, 2006

Note 11 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)

The pension benefit rate totals 14.87 percent for the period from July 1, 2005 through September 30, 2005 and 16.34 percent for the period from October 1, 2005 through June 30, 2006 of the covered payroll to the plan. Basic plan members make no contributions, but member investment plan members contribute at rates ranging from 3.0 percent to 4.3 percent of gross wages. The School District's contributions to the MPSERS plan for the years ended June 30, 2006, 2005, and 2004 were \$1,100,889, \$950,796, and \$845,421, respectively.

Postemployment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPSERS plan discussed above.

Note 12 - State Aid Anticipation Note

On August 19, 2005, Manchester Community Schools borrowed \$1,337,000 in a state aid anticipation note. The note bears interest at 2.92 percent and was paid on August 18, 2006.

Note 13 - Subsequent Events

On August 18, 2006, the School District borrowed \$1,309,000 at 3.68 percent annual interest on a state aid anticipation note. The note, plus interest, is due August 20, 2007.

Manchester Community Schools

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

	Original Budget	Final Budget	Actual
Revenue			
Local sources	\$ 2,330,093	\$ 2,403,867	\$ 2,435,991
State sources	8,627,933	8,663,853	8,812,298
Federal sources	368,419	465,720	289,012
Total revenue	11,326,445	11,533,440	11,537,301
Expenditures			
Current:			
Instruction:			
Basic programs	5,087,827	5,202,691	5,077,558
Added needs	562,409	634,115	646,249
Adult and continuing education	-	-	80,706
Support services:			
Pupil	1,479,317	1,389,374	1,398,674
Instructional staff	305,932	354,546	325,032
General administration	456,355	566,099	397,197
School administration	521,599	513,468	522,789
Business services	231,249	219,187	219,537
Operation and maintenance	1,443,531	1,481,457	1,355,583
Pupil transportation services	811,806	944,690	669,089
Community services	202,166	257,142	329,507
Other	130,648	130,724	120,481
Capital outlay	-	6,200	175,188
Intergovernmental transfers	176,542	173,542	147,655
Total expenditures	11,409,381	11,873,235	11,465,245
Other Financing Uses - Transfers out	<u>(264,525)</u>	<u>(240,566)</u>	<u>(230,977)</u>
Net Change in Fund Balance	(347,461)	(580,361)	(158,921)
Fund Balance - July 1, 2005	<u>1,280,200</u>	<u>1,320,887</u>	<u>1,832,474</u>
Fund Balance - June 30, 2006	<u>\$ 932,739</u>	<u>\$ 740,526</u>	<u>\$ 1,673,553</u>

Manchester Community Schools

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2006

	Special Revenue Funds		Debt Service Funds			Capital Projects Fund		
	Athletics	Food Services	2000 Debt	2005 Debt	Durant	2000 Building and Site	Capital Improvement	Total
Assets								
Cash and investments	\$ 99,149	\$ 166,935	\$ 22,652	\$ 97,070	\$ -	\$ -	\$ 217,295	\$ 603,101
Receivables	-	29,825	2,132	95	-	-	-	32,052
Due from other funds	16,661	-	-	-	23,632	995	-	41,288
Prepaid items and inventories	-	8,124	-	-	-	-	-	8,124
Total assets	<u>\$ 115,810</u>	<u>\$ 204,884</u>	<u>\$ 24,784</u>	<u>\$ 97,165</u>	<u>\$ 23,632</u>	<u>\$ 995</u>	<u>\$ 217,295</u>	<u>\$ 684,565</u>
Liabilities and Fund Balances								
Liabilities								
Accrued payroll and other liabilities	\$ -	\$ 494	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 494
Due to other funds	-	199,220	198	-	-	-	-	199,418
Total liabilities	-	199,714	198	-	-	-	-	199,912
Fund Balances								
Reserved:								
Prepaid items and inventories	-	8,124	-	-	-	-	-	8,124
Reserved for capital projects	-	-	-	-	-	995	217,295	218,290
Reserved for debt service	-	-	24,586	97,165	23,632	-	-	145,383
Undesignated, reported in								
Special Revenue Funds	115,810	(2,954)	-	-	-	-	-	112,856
Total fund balances	<u>115,810</u>	<u>5,170</u>	<u>24,586</u>	<u>97,165</u>	<u>23,632</u>	<u>995</u>	<u>217,295</u>	<u>484,653</u>
Total liabilities and fund balances	<u>\$ 115,810</u>	<u>\$ 204,884</u>	<u>\$ 24,784</u>	<u>\$ 97,165</u>	<u>\$ 23,632</u>	<u>\$ 995</u>	<u>\$ 217,295</u>	<u>\$ 684,565</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2006

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Manchester Community Schools

Other Supplemental Information Schedule of Bonded Indebtedness Year Ended June 30, 2006

June 30	2000 Bonds Principal	2001 Bonds Principal	Durant Bonds Principal	2005 Refunding Principal	2006 Refunding Principal
2007	\$ 275,000	\$ 1,055,000	\$ 11,980	\$ 30,000	\$ -
2008	275,000	1,120,000	55,233	35,000	-
2009	275,000	1,180,000	13,152	35,000	-
2010	-	1,505,000	13,777	35,000	-
2011	-	1,560,000	14,434	35,000	-
2012	-	1,350,000	15,120	40,000	-
2013	-	270,000	15,840	1,160,000	-
2014	-	270,000	-	1,210,000	-
2015	-	-	-	1,230,000	-
2016	-	-	-	1,240,000	-
2017	-	-	-	1,250,000	-
2018	-	-	-	1,260,000	-
2019	-	1,300,000	-	-	-
2020	-	1,325,000	-	-	45,000
2021	-	1,350,000	-	-	75,000
2022	-	-	-	-	1,450,000
2023	-	-	-	-	1,475,000
2024	-	-	-	-	1,500,000
2025	-	-	-	-	1,500,000
2026	-	-	-	-	1,500,000
2027	-	1,500,000	-	-	-
2028	-	1,500,000	-	-	-
2029	-	1,500,000	-	-	-
2030	-	1,525,000	-	-	-
2031	-	1,525,000	-	-	-
	<u>\$ 825,000</u>	<u>\$ 19,835,000</u>	<u>\$ 139,536</u>	<u>\$ 7,560,000</u>	<u>\$ 7,545,000</u>
Principal payments due	May 1	May 1	May 15	May 1	May 1
Interest payments due	May 1 and November 1	May 1 and November 1	May 15	May 1 and November 1	May 1 and November 1
Interest rate	4.60% to 4.75%	3.50% to 5.50%	4.76%	3.0% to 5.0%	4.0% to 4.125%
Original issue	<u>\$ 2,900,000</u>	<u>\$ 37,865,000</u>	<u>\$ 236,316</u>	<u>\$ 7,590,000</u>	<u>\$ 7,545,000</u>



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Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

To the Board of Education
Manchester Community Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Manchester Community Schools as of and for the year ended June 30, 2006, which collectively comprise Manchester Community Schools' basic financial statements, and have issued our report thereon dated September 29, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Manchester Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Manchester Community School's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We considered the lack of segregation of duties relating to bank reconciliations, cash receipts, and cash disbursements systems to be a reportable condition. The School District has only one person handling all of these responsibilities. In addition, we considered the lack of timeliness of the bank reconciliations to be a reportable condition.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

To the Board of Education
Manchester Community Schools

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Manchester Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education and management and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

September 29, 2006

Manchester Community Schools

Board of Education Office

Dr. David N. Oegema, Superintendent
410 City Rd., Manchester, MI 48158
PH: 734-428-9711 FAX: 734-428-9188



Ronald Ellison, President
Marlene Wagner, Vice-President
Vicki Miller, Secretary
Lyndon Uphaus, Treasurer
Polly Jo Deacons, Trustee
Tim McConnell, Trustee
P.LaMont Okey, Trustee

September 29, 2006

Plante & Moran, PLLC
1111 Michigan Ave
East Lansing, MI 48823

Auditors:

We are providing this letter in connection with your audit of the basic financial statements of Manchester Community Schools for the year ended June 30, 2006 for the purpose of expressing opinions as to whether the financial statements that collectively comprise the school district's basic financial statements present fairly, in all material respects, the financial position, results of operations, and proprietary fund cash flows of Manchester Community Schools in conformity with generally accepted accounting principles. We confirm that we are responsible for the fair presentation in the basic financial statements of financial position, results of operations, and proprietary fund cash flows in conformity with generally accepted accounting principles.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of September 29, 2006 the following representations made to you during your audit:

1. We affirm that Management:

- a. Is responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the District.
- b. Is responsible for establishing and maintaining effective internal control over financial reporting.
- c. Is responsible for the design and implantation of programs and controls to prevent and detect fraud.
- d. Has identified and disclosed to the auditor all laws, regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- e. Has taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that the auditor reports, if any.
- f. Has a process to track the status of audit findings and recommendations.
- g. Has provided views on the auditors' reported findings, conclusions, and recommendations, as well as management's planned corrective actions, for the report.

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2. In preparing the financial statements we affirm:
 - a. The accounts of the School District are maintained in accordance with accounting policies prescribed by the State of Michigan, Department of Education "Financial Accounting for Michigan School Districts" (Bulletin 1022 revised).
 - b. All funds that meet the quantitative criteria in GASB #34 for presentation as major are identified and presented as such. Any other funds presented as major are particularly important to financial statement users.
 - c. Net asset components (invested in capital assets, net of related debt; restricted or unrestricted) and fund balance reserves and designations are properly classified and, when required, approved.
 - d. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities with allocations made on a reasonable basis.
 - e. Revenues are appropriately classified in the statement of activities as program revenues, general revenues, contributions to term or permanent endowments or contributions to permanent fund principal.
 - f. Inter-fund, internal and intra-entity activity and balances have been appropriately classified and reported.
 - g. Special and extraordinary items, if any, are appropriately classified and reported.
 - h. Deposits and investment securities are properly classified in category of custodial credit risk.
 - i. Capital assets are properly capitalized, reported, and depreciated. The school district does not have material infrastructure assets (except for)
 - j. Required supplemental information (RSI) is presented and measured within prescribed guidelines.
 - k. That we have received assistance from you, the auditors, in the drafting of the basic financial statements and we acknowledge that we have reviewed, approved, and take responsibility for the form and content of those financial statements.
3. We are unaware of any violation of generally accepted accounting principles in the district's accounting principles and the practices and methods followed in applying them.
4. There have been no changes during the year in the district's accounting principles and practices or in the methods of applying them (except for those related to the adoption of the new reporting model required by GASB #34).
5. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
6. We believe that the effects of the uncorrected financial statement misstatements summarized in the accompanying schedule are immaterial, both individually and in the aggregate, to the financial statements for each opinion unit.
7. We have made available to you all:
 - a. Financial records and related data.
 - b. Minutes of meetings held to the date of this letter of the Board of Education or summaries of actions of recent meetings for which minutes have not yet been prepared.
8. We have no knowledge of any fraud or suspected fraud affecting the District involving:

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- a. Management
 - b. Employees who have significant roles in internal control.
 - c. Others where the fraud could have a material effect on the financial statements.
9. We have no knowledge of any allegations of fraud or suspected fraud affecting the Company received in communications from employees, former employees, regulators, or others.
 10. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
 11. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.
 12. There are no:
 - Related party transactions and related amounts receivable or payable including; sales, purchases, loans, transfers, leasing agreements and guarantees, including the provision of products or services without charge.
 - a. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances.
 - b. Lines-of-credit or similar arrangements.
 - c. Agreements to repurchase assets previously sold.
 - d. Violations (or possible violations) of laws, regulations, and provisions of contracts and grant agreements whose effects should be considered for disclosure in the financial statements, as a basis for recording a loss contingency, or for auditor reporting on noncompliance.
 - e. Circumstances that we are aware of that make it reasonably possible that the District would be named a responsible party in the remediation of environmental contamination.
 - f. Other material liabilities or loss contingencies for which the risk that the District will suffer a loss is more than remote.
 - g. Component units required to be included in the financial statements.
 - h. Joint ventures with an equity interest or other joint ventures required to be included in the financial statements.
13. We are not aware of any unasserted claims or assessments that should be accrued or disclosed in the financial statements. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5.
14. Adequate provision has been made to cover possible losses that may result from:
 - a. The collection of receivables
 - b. Potential property tax rebates
 - c. Significant excess or obsolete inventories
 - d. Significant purchase or sales commitments
 - e. Permanent declines in the value of investments
 - f. Impairments of long-lived assets
15. The District has satisfactory title to all owned assets, including general fixed assets, which were

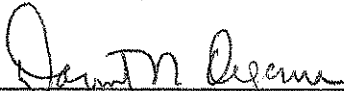
recorded as such on the books as of that date and there are no liens or encumbrances on such assets nor has any asset been pledged.

16. All significant contracts and contracts not in the normal course of business entered into by the district have been presented to you for your evaluation.
17. We have no deferred compensation plans.
18. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
19. Expenditures incurred for all federal programs totaled less than \$500,000 for the fiscal year under audit.
20. The investment risk categorization of investments held during the year was similar to those held at the end of the fiscal year and those investments comply with State of Michigan law.
21. All borrowings are in accordance with State of Michigan requirements.
22. The ISD audited pupil counts for the District for the February and September 2005, counts are 1277.62 and 1339.48 respectively and have been reported to the State of Michigan Department of Education (MDE) as required. These counts are accurate and determined in accordance with applicable laws, regulations, and MDE policy.
23. The School District has transferred certain risks to third-party insurance carriers and shared-risk insurance pools and the financial statements reflect assessments or other liabilities, if any, related to these transactions. The School District also retains the risk for certain insurance liabilities and any liabilities related to such risks are properly reflected in the financial statements.
24. We have followed applicable laws and regulations in adopting, approving and amending district budgets. All budgets formally adopted by the Board of Education for all funds are summarized as follows:

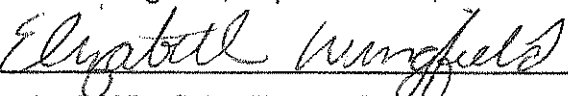
<u>Fund</u>	<u>Revenue</u>	<u>Expenses</u>	<u>Fund Balance</u>
General	11,533,438	12,113,801	1,252,113
Debt Service	3,435,119	2,787,593	804,927
Special Revenue	464,946	437,450	174,931
Capital Projects	186,530	849,176	886,491

25. There are no interim financial statements available as of a date subsequent to the date of the statements you are auditing.

To the best of our knowledge and belief, no events have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to, or disclosure in, the aforementioned basic financial statements.



Dr. David Oegema, Superintendent



Elizabeth Wingfield, Finance Director

To the Board of Education
Manchester Community Schools

In planning and performing our audit of the financial statements of Manchester Community Schools for the year ended June 30, 2006, we considered the School District's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. The consideration we gave to the internal control structure was not sufficient for us to provide any form of assurance on it. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions are significant deficiencies in the design or operation of the internal structure that have come to our attention and, in our judgment, could adversely affect the School District's ability to record, process, summarize, and report financial data consistent with management's assertions inherent in the financial statements.

This report contains items considered to be reportable conditions, as defined above, as well as recommendations we feel, if implemented, will improve the internal controls and efficiency of your organization. All items are presented for your consideration on attachments as outlined below:

<u>Title</u>	<u>Page</u>
Reportable Conditions	
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Bank Reconciliations	3
Recommendations & Informational Comments	
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State Aid Issues	4
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To the Board of Education
Manchester Community Schools

We are grateful for the opportunity to be of service to your School District. The cooperation extended to us by the School District throughout the audit was greatly appreciated. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

September 29, 2006

Manchester Community Schools Reportable Conditions

Segregation of Duties

A significant element of internal control is segregation of duties between individuals authorized to approve and execute transactions and those who record the transactions. At the School District, one individual has the responsibility to prepare bank reconciliations, process cash wire transfers, prepare bank deposits, take deposits to the bank, and record journal entries in the general ledger.

Proper segregation of duties in the cash disbursements and receipts processes would require a separate person to handle issuing checks, cash receipts, wire transfers, bank reconciliations, and reviewing reconciliations.

We recommend that these abilities be separated in order to facilitate adequate segregation of duties and to limit the opportunity to commit fraud.

Bank Reconciliations

Another significant element of internal control is timely completion of bank reconciliations. Completion of monthly bank reconciliations is necessary in order to identify and prevent errors and the potential for fraudulent activities. We recommend that reconciliations be completed by the end of the following month by someone independent of the reconciliations and independent of the recording of cash, review for accuracy, completeness, and timeliness. Although the bank reconciliations were not completed timely throughout the year, they were completed by the end of July 2006. We understand, subsequent to July, these reconciliations have been completed timely.

Additionally, we noted that maintaining one bank account for the Athletics and Food Service Funds is confusing for accounting staff involved in reconciling these accounts. We recommend opening separate bank accounts for each of these funds, thus keeping the accounting and reconciliation processes for these funds completely independent of each other.

Manchester Community Schools

Recommendations & Informational Comments

Fund Balance

We feel that it is important for the District to maintain an appropriate level of fund equity. We believe that the benefit of the District maintaining an appropriate amount of fund equity allows the District the ability to maintain its current level of programs, while being able to meet unforeseen circumstances, such as the implementation of State Aid proration and the uncertainties with funding provided by the State. This becomes especially important due to the funding caps imposed by school finance reform, increasing retirement and other costs, and cash flow needs due to the elongation of state aid payments, as well as concerns over the financial health of the School Aid Fund.

During the 2005-2006 school year, the District's General Fund expenditures exceeded revenues by approximately \$159,000. This resulted in decreasing the General Fund equity to approximately \$1,674,000 at June 30, 2006. Fund balance goals are often stated in terms of a percentage of total expenditures. As a point of reference, the statewide average for school districts at June 30, 2005 (excluding Detroit) is approximately 14.32 percent of expenditures. The School District's unreserved, undesignated fund equity percentage is 12.6 percent and equals approximately 1.5 months of operation. Clearly, as the District moves through 2006-2007, it will face unprecedented challenges in this area given the funding plan put in place by the State coupled with increasing fringe benefit costs.

State Aid Issues

Some highlights for FYE 2007 are as follows:

- Foundation Allowance: The bill provides for a \$210 increase in the base foundation allowance.
- New Categorical: Middle School Math - \$54 per pupil for 6th, 7th, and 8th graders in 2006-2007, with performance requirements for receiving the funds in future years
- Retirement Rate: The MPSERS retirement rate is 17.74 percent for 2007.
- New Budgeting Requirement: A new section has been added to the State Aid Act, Section 18(2) that states that within 30 days of adopting the annual budget, and any time the budget is revised, the district shall make it available on its website in a form and manner prescribed by the Department.

As always, final funding remains tentative, and there remains the continuing possibility of prorations if the School Aid Fund revenue should fall short of projections.

Federal Program Expenditure Documentation

During 2006, the Michigan Department of Education issued a clarification as to the types of documentation necessary to support payroll charges to federal programs. While this discussion is not comprehensive, it is intended to highlight the key elements of the clarified requirements.

Manchester Community Schools

Recommendations & Informational Comments

Federal Program Expenditure Documentation (Continued)

For an employee who works solely on a single federal program, required documentation includes:

- A “certification” that the employee worked solely on a particular federal program for the period covered by the certification
- The certification must be prepared at least semi-annually and signed by the employee or a supervisory official having first-hand knowledge of the work performed by the employee

For an employee who is partly funded a federal program but works in a “single cost objective” (that is, they perform the same function the entire day but are not 100 percent federally funded), the certification requirements above apply.

For districts that have a “schoolwide” building as defined by the Title I regulations, employees charged to federal grants within that building can use the certification requirements to support the time charged to the federal grant.

If an employee works on more than one federal award or part of their time is spent in nonfederal award areas (and the services are not considered a single cost objective), required documentation includes:

- Personnel activity reports or equivalent documentation reflecting the actual activity of the employee
- Documentation must include the total activity for which the employee is compensated.
- The report must be signed by the employee.
- If lesson plans are used they must be updated to show what was actually done that day and be signed by the teacher.

While these are not new requirements, the documentation requirements can be very confusing. The District should review their documentation procedures and compared the procedures to the State issued clarifications to ensure procedures are sufficient to comply with federal requirements.

EMPLOYEE BENEFITS

Double Employee Deferral Opportunities

District employees can now set aside at least \$30,000 tax-deferred using a paired 403(b) and 457 plan approach. Most employees will now have to decide how much they WANT to contribute rather than how much the law PERMITS them to contribute; few will actually contribute the generous new “maximum” but many might contribute much more than in the past.

While the tax law changes have simplified administration, the District should evaluate plan design options, funding alternatives, and employee eligibility.

Manchester Community Schools

Recommendations & Informational Comments

403(b) Annuity Plans

Comprehensive proposed IRS regulations were released late in 2004, with final regulations expected in late 2006, which would require employers to take more responsibility in the operation and compliance of their 403(b) arrangements, including operating the plans under a written document.

Effective in 2006, 403(b) arrangements can include a Roth contribution feature. Roth contributions are after-tax contributions that provide for tax-free withdrawals of contributions and earnings if certain requirements are met. The IRS has not yet issued Roth 403(b) guidance, but once issued, it is likely that vendors will be proactive in using this feature to initiate a 403(b) marketing effort.

Upcoming Auditing Pronouncements

Statement on Auditing Standards 112

Communication of Internal Control Related Matters Noted in an Audit: During May 2006, the American Institute of Certified Public Accountants (AICPA) Audit Standards Board issued a new Statement on Auditing Standards (SAS), which superseded SAS 60. The effective date is for audits of financial statements for periods ending on or after December 31, 2006 (fiscal year ending June 30, 2007 for school districts).

This standard establishes requirements and provides guidance to enhance the auditor's communication responsibility to the audit committee, if one exists, or the Board of Education concerning significant deficiencies and material weaknesses in internal control noted in a financial statement audit. The standard defines internal control deficiency, significant deficiency (this term replaces and therefore eliminates the term "reportable condition"), and material weakness. Internal control deficiencies that constitute significant deficiencies and material weaknesses will be reported to the audit committee or the Board of Education in writing and will be made no later than 60 days following the release date of the auditor's report on the financial statements.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Manchester Community Schools

Recommendations & Informational Comments

Upcoming Auditing Pronouncements (Continued)

Statement on Auditing Standards 112 (Continued)

The substantive implication of this new standard is that it is likely that auditors will be required to officially report on more internal control-related items than in the past. This is because the new audit standard lowers the threshold that is used to determine if a control deficiency must be officially reported.

Statements on Auditing Standards 104 to 111

The Risk Assessment Standards: The AICPA issued Statements on Auditing Standards (SAS 104 - SAS 111) that will substantially affect the auditing process. The effective date for school district audits will be for the audit of the financial statements for the year ending June 30, 2008. The ramifications for the audit process are substantial. At this point, the specific impact of these standards on our school district auditing process is being evaluated and we will continue to keep you apprised of the status.

Government Auditing Standards Exposure Draft (2006 Revision)

The Government Accountability Office (GAO) is finalizing its revisions to *Government Auditing Standards* (the Yellow Book). These revisions will be issued before the end of 2006. All school districts in Michigan are required to be audited under the Yellow Book requirements in addition to the audit standards issued by the Auditing Standards Board. These Yellow Book changes will be effective for the June 30, 2007 school district audits. The planned changes are substantive and will impact audit approach, audit documentation, and audit reporting. Some likely impacts of the changes include:

- Likely increased number of findings reported in the single audit report due to a lowered threshold of what must be reported
- Incorporation of audit documentation requirements
- Increased evaluation of compliance with auditor independence requirements
- Increased expectation of governments to maintain and prepare their financial information for audit

Once the changes are final, we will provide the District with specific information on how the changes will affect the audit process.